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Before the House Committee on Ways and Means
Subcommittee on Trade
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Mr. Chairman and members of the Subcommittee, I am pleased to be here today to offer the views of the Administration on various proposed amendments to the 1964 Meat Import Act.

The state of the American cattle industry has undergone a fundamental change since this Subcommittee held hearings on meat import legislation in May of last year. As you know, 1978 was the fourth consecutive year of U.S. cattle herd liquidation. Cattle and calf slaughter exceeded the calf crop in 1976 for the first time since 1947, and this same phenomenon occurred again in 1977 and 1978. The U.S. cattle population dropped from a record 132 million head in 1975 to 110.9 million head at the beginning of 1979.

Today's higher cattle prices, which are the result of this reduced beef cattle supply, are also a signal to producers to start herd rebuilding. Producers likely are now taking steps to rebuild their herds. The slaughter of cows during the first quarter of 1979 was down about 30 percent from a year earlier. Market receipts data show that heifers accounted for approximately one-fourth of total receipts in the first quarter of 1979 compared to one-third a year ago. On the basis of information such as this, we have good reason to believe that the herd rebuilding process is underway.

The rebuilding process is necessarily fairly lengthy. From the time a cattleman decides to increase the size of his breeding herd by retaining a heifer from his calf crop, it can be over 40 months before this calf

can be raised to maturity, produce an offspring, and that offspring be raised to a mature slaughter weight. If the offspring is retained to further increase the herd, it could be about 5 1/2 years from the time the first calf is retained to increase herd size until the third generation offspring reaches slaughter.

During this time, domestic production of beef is necessarily reduced. The decline in production resulting from a diminished herd size is compounded by retention of heifers for rebuilding the herd. We presently expect that domestic beef production will be down substantially in 1979, perhaps by around 9-10 percent. The decline in lean beef production will be particularly severe as the result of a sharp drop in slaughter of grass fed steers and heifers. So, during the next few years as the herd is rebuilt, slaughter will be low and beef production, particularly lean beef, will be at a low level.

It is in this phase of the cattle cycle, when beef production is relatively low and lean beef production is particularly low, that the need for supplemental supplies of lean imported beef is greatest. And it is at this same time, ironically, that the quota for meat imports, calculated according to the 1964 Meat Import Act, declines to lower levels, frequently compelling Presidents to intervene to suspend the quota in order to improve lean beef supplies. Conversely, during the years of herd liquidation, when record numbers of domestic cattle were going to slaughter and cattle prices were depressed, the formula in the 1964 Act raised the quota to higher levels.

In view of this anomaly, the Administration indicated its support last year for a countercyclical formula, such as that contained in H.R. 2727, H.R. 1076, and several other bills referred to the Ways and Means

Committee, which would adjust the quota for meat imports in a manner counter to the domestic cattle cycle, thus adjusting imports to be more complementary to domestic production, and also reducing the need for Presidential intervention to adjust the level of meat imports. The Administration continues to have no objection to this formula.

However, the Administration's support for enactment of this formula, last year and this year, is contingent on fulfillment of two conditions: first, the President must retain the same authority he has under the current law to suspend quotas, and second, the amended law must provide a floor, or minimum access level, of 1.3 billion pounds.

Our reasons for insisting on these two changes are simple. First, with respect to the President's discretionary authority, no formula, neither the one in the 1964 Meat Import Act nor those in the bills referred to this Committee, can be relied on to react ideally to all unforeseen circumstances in which additional meat imports might be needed. No one in the Administration, and I suspect few, if any, in the Congress, is willing to lock a major instrument of U.S. food policy into a mechanical formula which contains only marginal adjustment provisions. We believe it is not in the best interest of consumers, nor in the long-term interest of domestic catttle producers, to remove the flexibility, provided to the President under the current law, to increase meat imports when they are needed.

With respect to this point, let me describe specifically the concerns we have with two of the bills the Committee is considering: H.R. 2727 and H.R. 1076.

H.R. 2727, like the bill which was vetoed by the President last year, uses the ratio of two indexes to determine when the President would

be able to suspend the meat import quota. This index ratio is obtained by dividing the USDA Farm Price of Cattle Index for each calendar quarter by the Bureau of Labor Statistics Beef and Veal Price Index for the same quarter. If the resulting ratio averages 1.10 or higher during two consecutive quarters, then the President has authority to suspend the quota and increase meat imports for the remainder of the calendar year by up to 10 percent. If the index ratio averages 0.90 or less for two consecutive quarters, then the President may decrease meat imports by 10 percent. If the President desires to increase or decrease meat imports by more than 10 percent, he would be required to notify the Congress and the public 30 days in advance.

Under this formula, the President would have been able to suspend the meat import quota in the second half of 1972, and in 1973 and 1974, over the period 1967 to 1978. In contrast, over the same period under the present law, the President was able to increase meat imports in the second half of 1970, in all of 1971. 1972, 1973, and 1974, and in the second half of 1978.

While it may be argued whether in each of these instances an increase in meat imports was warranted, there is no doubt that the restrictions proposed in H.R. 2727 would have eliminated human judgment, good or bad, from this issue, and substituted a formula which would have been much more restrictive.

A major potential problem with the approach proposed by H.R. 2727 is that it anticipates that the relationship which has obtained in the past between price trends for live cattle and for retail meat will also obtain in the future. It is useful to remember that for at least part of the period in which the ratio in H.R. 2727 averaged over 1.10 there

were price controls on meat at the retail level. If, in the future, retail prices were to respond more quickly to changes in live cattle prices, it is possible that the President would never have authority to suspend quotas, even in the face of a rapid and protracted rise in meat prices.

The requirement for 30 days notice in the event the President desires to increase or decrease imports by more than 10 percent could, potentially, raise other problems, by increasing the market instability caused by uncertainty related to implementation of the decision.

H.R. 1076 takes an entirely different approach to defining the President's authority to suspend quotas. It completely abandons the two price indexes as an indicator of Presidential authority to suspend and in their place uses the countercyclical adjuster itself. The adjuster, which is a five-year moving average divided by a two-year moving average of per capita cow beef production, produces a quotient which is somewhat greater or less than 1.0. A quotient of less than 1.0 indicates that cow slaughter is increasing and that the cattle cycle may be moving into a liquidation phase. When this happens, H.R. 1076 would remove the President's authority to suspend the quota, except in the event of a national emergency or national disaster.

Using this approach, the President would have been able to suspend the quota, subject to the criteria in the current law, in all years over the 1969-1978 period except 1974, 1975, 1976, and 1977, the years of the most recent herd liquidation.

A potential problem with this approach is that it places great importance on USDA estimates of cow beef production. USDA has, for several years, estimated cow beef production as part of its estimates of

total beef production required by the current law, but records of these estimates have not been retained to permit an analysis of their accuracy. However, in order to affect a change of $\pm$ 0.01 in the ratio, it is necessary to change the estimates of cow beef production in the 5-2 adjuster by about 3 percent. It would appear, then, that a relatively large error would be required to make a significant change in the ratio. The years in which the greatest error is likely are those years the beef cattle cycle turns.

Both H.R. 2727 and H.R. 1076 allow the President to suspend quotas in the event of national emergency or natural disaster in those years in which their formulas would not otherwise empower the President to do so. One cannot rule out unforeseen circumstances which might not qualify as national emergencies or natural disasters but which nevertheless could reduce the availability of beef or other meats. In such situations the President would have no authority to provide relief. We believe that this "escape clause" is too narrow to be of practical use.

The second provision of meat import legislation which we regard as important, and on which Administration support for meat import legislation is conditioned, is a minimum access level of 1.3 billion pounds. This minimum access level is important if we are to treat fairly the countries which supply meat to the United States. Over the years, in part because of the way the current meat import law operates, some of the countries have developed beef cattle cycles which are parallel to our own. Introduction of a countercyclical formula will reduce their access to the U.S. market at a time when their beef cattle numbers are likely to be high. If the U.S. is to be assured of adequate supplies of red meat during periods of worldwide underproduction, it must provide its suppliers

with adequate markets during periods of overproduction when the need for an export market is greatest for its suppliers. Since the United States is the primary market for several meat exporting countries, especially Australia and New Zealand, an additional limitation on meat imports could impose an economic hardship on these countries by requiring them to bear much of the brunt of the U.S. cattle cycle. This could jeopardize their capacity as sources for additional meat supplies when our production is low.

Throughout the Tokyo Round of the Multilateral Trade Negotiations the United States has accorded the highest priority to obtaining less restricted trade in red meats, especially high-quality grain-fed beef which we produce more efficiently than any other country. The U.S. has the potential to become the largest exporter of beef and livestock products if world trade in beef is liberalized. It is, therefore, more than a little inconsistent to take actions which will be perceived by our trading partners as further reducing their access to the U.S. market when we have succeeded in opening new markets for U.S. beef with significant future growth potential. Therefore, the Administration continues to feel that equity for our suppliers requires a minimum access level of no less than 1.3 billion pounds.

Based on USDA projections, beef imports allowable under the proposed countercyclical formula would not drop be likely to below 1.3 billion pounds until at least 1983, with allowable imports never getting as low as 1.2 billion pounds. However, by 1983 we expect the U.S. to be exporting at least 100 million pounds of high quality beef, more than it is presently exporting. For this reason, the 1.3 billion pound floor would not present a burden for the U.S. livestock industry. On the other hand, the 1.3 billion

pound minimum import level would offer more protection for U.S. consumers.

Beyond these two points, there are issues raised by some of the other bills which have been referred to this Committee on which we would like to comment.

H.R. 449 proposes a number of changes to the present law which were rejected by this Committee last year.

It would go beyond the additional items included under the quota by H.R. 2727 to extend the quota to canned corned beef, pickled beef and veal and beef and other sausages in airtight containers, tariff items 107.20, 107.25, 107.40, 107.45, 107.48, and 107.52. These products are not now covered by the law, and we believe there is no justification for including them in the law now. These items have averaged only 103 million pounds a year since 1969 and represent 7.4 percent of our total beef imports for that period.

Moreover, in each year more than 85 percent of these imports have been cooked beef, primarily canned corned beef which is not produced in the United States. Production of these items in the United States is either extremely limited or nonexistent, so that imposition of restrictions on importation of these items could cause our supply to be insufficient. Therefore, we would oppose extension of the quota to these items.

The requirement in H.R. 449 that no more than 27 percent of the total volume of imports can enter the U.S. in any quarter could have a disruptive effect on the market. It ignores production patterns which, because of weather and other factors, cannot be forced into neat quarterly periods. It ignores the seasonality of demand in the United States where the demand, and hence the price, of beef tends to be higher in the

summer. In our view, the result of this proposal would be to place an unnecessary restrictions on the normal operation of supply and demand factors on which marketing should be based.

Another issue raised by H.R. 449 is a restriction on importation of live cattle. Live cattle imports would be limited to 960,000 head a year, and within a year to 100,000 in any month. Imports of live cattle were 1,133,000 head in 1977 and 1,253,000 head in 1978.

This bill would particularly impact Canada and Mexico. In 1978 the United States imported live cattle from Canada and Mexico valued at $125 million and $130 million respectively while the U.S. exported live cattle to Canada and Mexico valued at $22 million and $17 million respectively. However, at the same time, total exports of U.S. meat and other livestock products to the countries, excluding live cattle, were $364 million while imports were $297 million, providing the U.S. with a $67 million surplus in this trade. From these figures, the interlocking nature of meat and cattle trade among the three countries is apparent, and our interest in keeping the door open is obvious.

We believe the better way to account for live cattle imports is the method proposed in H.R. 2727 and H.R. 1076. Both bills would remove the carcass weight equivalent of live cattle imports from the figure for domestic production in calculating the quota.

We would also object strongly to changes proposed in H.R. 1995, 1996, and 1997, which appear to be intended to extend the quota to canned corned beef and other processed products not now subject to the law, and to hold imports in any year at or below the quota level. The current law provides greater leeway in administration of the quota by allowing imports to exceed the quota by as much as 10 percent before the quota

must be invoked.

We would object also to the provision of H.R. 120 requiring the President to obtain Congressional approval before suspending the quota. In the opinion of the Justice Department, a concurrent resolution of the Congress, which is not generally submitted to the President for his approval or disapproval pursuant to Article I., Section 7 1, of the Constitution, is constitutionally insufficient to control the exercise of discretion vested in the President by statute. The Administration's position on such socalled "legislative veto" devises was formally com- to the Congress by the President on June 21 1978 and is clearly applicable to the concurrent resolution disapproval device contained in Section 2, Paragraph (g) of H.R. 120.

Finally, we would object to those bills, such as H.R. 1541, 1957, 1997, and 2363, which would amend the law retroactive to the beginning of this year. Such a provision would require renegotiation of the voluntary restraint agreements, presently in place with the meat exporting countries, after we are well into the year.

In conclusion, Mr. Chairman, the Administration continues to be willing to support the countercyclical formula provided in H.R. 2727 and H.R. 1076. But we also continue to believe it to be essential that the President retain the authority provided him under the current law to suspend the quota and increase imports when, in his judgment, such action is in the best interest of the nation. And we believe that considerations of fairness, as well as self-interest, require that we assure the meat exporting countries a minimum market of 1.3 billion pounds.

Thank you.

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